DIRECT TESTIMONY OF

JAMES E. SWAN, IV

ON BEHALF OF

SOUTH CAROLINA ELECTRIC & GAS COMPANY

DOCKET NO. 2009-489-E

Q. PLEASE STATE YOUR FULL NAME AND BUSINESS ADDRESS.

A. My name is James E. Swan, IV. My business address is 220 Operation Way, Cayce, South Carolina

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by SCANA Services, Inc. and serve as the Controller of SCANA Corporation and its subsidiaries ("SCANA"), including South Carolina Electric & Gas Company (the "Company" or "SCE&G").

Q. DESCRIBE YOUR EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE.

A. I received a Bachelor of Science degree in Accounting from Clemson University, cum laude, in May of 1982. In June 1982, I joined the public accounting firm of Touche Ross & Co. as an auditor, and I left the firm as a senior accountant in June 1986 to become the Controller of Nautilus Sports/Medical Industries, Inc. In December of 1987, I left Nautilus and returned to the Touche Ross accounting firm as an audit manager. While at Touche Ross and later at Deloitte & Touche, I was responsible for the performance of audit and related services for clients in the utilities, manufacturing and distribution, healthcare, telecommunications and technology industries. While at Deloitte & Touche, I served in a risk management role in the firm's National Office, and I also devoted a significant amount of time to resolution of technical accounting issues and to serving Securities and Exchange Commission (SEC) registrants. I left the firm as an audit partner in August 2000 to join SCANA as an assistant controller. I became SCANA's and SCE&G's Controller in the Spring of 2002. I am a certified public accountant in South Carolina and North Carolina, and I am a member of the American Institute of Certified Public Accountants.

Q. HAVE YOU EVER TESTIFIED BEFORE THIS COMMISSION IN THE PAST?

A. Yes. I have testified before the Public Service Commission of South Carolina (the "Commission") in several past proceedings.

Q. PLEASE DESCRIBE THE SCOPE OF THE TESTIMONY YOU ARE PRESENTING IN THIS CASE.

A. In connection with Docket No. 2009-489-E and the Company's Application for Adjustments and Increases in Electric Rates and Charges ("Application"), the Company included certain exhibits containing financial information. In this testimony, I discuss a number of those exhibits and ask the Commission to incorporate by reference the Application into the record of these hearings. The purpose of my testimony is to describe each of these exhibits and certain other accounting and financial information in support of the Company's Application.

Q. HOW ARE THE BOOKS AND RECORDS OF THE COMPANY MAINTAINED?

A. The books and records of the Company are maintained in accordance with accounting principles generally accepted in the United States and with the Uniform System of Accounts for major utilities as prescribed by the Federal Energy Regulatory Commission ("FERC"). This Uniform System of Accounts has been adopted by the Commission and is followed by major utilities subject to its jurisdiction. Compliance with generally accepted accounting principles and the Uniform System of Accounts is necessary in order to provide consistent and pertinent financial information to the general public, investors, regulators and the financial community.

Q. WHAT STEPS DOES THE COMPANY TAKE TO ENSURE THAT ITS BOOKS AND RECORDS ARE ACCURATE AND COMPLETE?

A. SCANA and the Company maintain and rely upon an extensive system of internal accounting controls, audits by both internal and external auditors, and financial oversight by the Audit Committee of SCANA's Board of Directors. The system of internal accounting controls is designed to provide reasonable assurance that all transactions are properly recorded in the books and records and that assets are protected against loss or unauthorized use. Historically, the system of internal accounting controls was reviewed annually by our independent auditors in connection with their financial statement audits. In 2004 and subsequently, however, Section 404 of the Sarbanes Oxley Act of 2002 has required that our internal control system be subjected to an even more thorough analysis. Each year, management documents SCANA's significant accounting processes and thoroughly tests the key accounting controls, while our independent auditors perform an independent audit of those controls and of the adequacy of the management assessment process itself. No material weaknesses in our controls have been found as a result of either the management assessment process or the independent audits.

Q. PLEASE DESCRIBE EXHIBIT NO. __ (JES-l) WHICH IS ALSO EXHIBIT NO. C-1 OF THE APPLICATION.

A. Exhibit No. __ (JES-l) consists of 14 pages and includes the Condensed Consolidated (Regulatory Basis) Balance Sheet for SCE&G as of September 30, 2009, and the Condensed Consolidated (Regulatory Basis) Statement of Income for the twelve months ended September 30, 2009. These Statements were prepared in accordance with generally accepted accounting principles, except that they exclude the accounts of South Carolina Generating Company, Inc. ("GENCO") which would be consolidated with SCE&G in order for the financials to be in conformity with generally accepted accounting principles (as described on page 5 of 14 of Exhibit No. _ (JES-1)), and they are consistent with similar statements previously filed with this Commission.

Q. PLEASE DESCRIBE PAGE 1 OF 4 OF EXHIBIT NO. __ (JES-2), WHICH IS ALSO PAGE 1 OF 4 OF EXHIBIT C-2 OF THE APPLICATION.

A. Page 1 of 4 of Exhibit No. __ (JES-2) is an analysis of the Company's total electric operating experience that identifies operating revenues and expenses, income for return, original cost rate base, and rate of return for the twelve months ended September 30, 2009 (the "test year").

Column 1 provides a description of the items included in determining income for return and original cost rate base.

Column 2 presents the "regulatory per books" amounts used to determine income for return and original cost rate base for the test year.

Column 3 summarizes the Company's accounting and pro forma adjustments that are necessary to reflect known and measurable changes to the results of the Company's electric operations for the test year. The detail for each pro forma adjustment by line item is included on page 4 of 4 of Exhibit No. __ (JES-2) and also Exhibit C-2 page 4 of 4, of the Application.

Column 4 presents the results of the Company's electric operations as adjusted for the accounting and pro forma adjustments.

Page 2 of 4 of Exhibit No. __ (JES-2) shows the retail electric results of operations after adjustments (column 2), as well as those results after application of the proposed revenue increase (columns 3 and 4).

Q. PLEASE EXPLAIN THE DERIVATION OF THE RATE OF RETURN ON ORIGINAL COST RATE BASE THAT APPEARS ON PAGE 2 OF 4 OF EXHIBIT NO. __ (JES-2) AND ALSO ON EXHIBIT C-2, PAGE 2 OF 4 OF THE APPLICATION.

A. On page 2 of 4 of Exhibit No. __ (JES-2), the total income for return on line 12 is divided by the total original cost rate base reflected on line 22 to derive the rate of return on original cost rate base as reflected on line 23. This exhibit shows that the Company earned only 6.50% on rate base during the test year, but would have earned 9.03% if the proposed revenue increase and the accounting and pro forma adjustments had been considered.

Q. PLEASE EXPLAIN PAGE 3 OF 4 OF EXHIBIT NO. __ (JES-2), WHICH IS ALSO PAGE 3 OF 4 OF EXHIBIT C-2 OF THE APPLICATION.

A. Page 3 of 4 of Exhibit No. __ (JES-2), shows the computation of the proposed revenue increase for each of the three phases of the rate adjustment proposed in the Application. As Mr. Marsh is testifying, to mitigate the impact on customers from the increase, and in light of current difficult economic conditions, the Company is proposing to phase-in the requested rate increase over three adjustments. Phase 1 would occur upon the effective date of the rate request, which is requested to be July 15, 2010. Phase 2 of the increase would take place on January 1, 2011 and Phase 3 would be effective on July 1, 2011. The elements of cost that would be included in each phase are set forth on Exhibit __ (JES- 8). To support this phasing-in of rates, the Company is requesting (a) that the Commission allow SCE&G to continue to apply the cost of storm damage insurance premiums to the storm damage reserve as authorized in Order No. 2007-680, in Docket No. 2007-335-E until such time as rate recovery is permitted in Phase 3 of this request; (b) that the Commission allow it to apply $3.3 million to the storm damage reserve in 2011 for tree trimming and vegetation management expenses consistent with the provisions of Order No. 2009-845, in Docket No. 2008-416-E; (c) that the Commission authorize SCE&G to defer, as a regulatory asset, depreciation and incremental O&M expenses associated with the scrubber and related assets at Wateree Station until such time as rate recovery is provided for these amounts in Phase 3 of the request; and (d) that the Commission authorize SCE&G to continue to be allowed to record carrying costs (as allowed in Order No. 2005-02, in Docket No. 2004-178-E) on the unrecovered balance of the Saluda Dam Remediation project until such time as rate recovery is provided for these amounts in Phase 2 of this request.

Q. PLEASE EXPLAIN EXHIBIT NO. __ (JES-3) WHICH IS ALSO INCLUDED AS EXHIBIT C-3 OF THE APPLICATION.

A. Exhibit No. __ (JES-3) shows the computation of the proposed revenue increase and serves to reconcile the components of the increase by showing the impact of taxes and customer growth. The computation here details the 9.03% return seen on Exhibit _ (JES-2), page 2 of 4.

Q. PLEASE DESCRIBE EXHIBIT NO. __ (JES-4), WHICH IS ALSO EXHIBIT C-4 OF THE APPLICATION.

A. Exhibit No. __ (JES-4) is a Statement of Fixed Assets - Electric at September 30, 2009. This statement details gross Plant in Service and Construction Work in Progress ("CWIP") by FERC functional classification identified in **Column 1**.

Column 2 includes the amounts recorded on the books and records of the Company as of September 30, 2009.

Column 3 summarizes the accounting and pro forma adjustments that impact Plant in Service and CWIP as detailed in Exhibit No. __ (JES-2) page 4 of 4 and Exhibit C-2 page 4 of 4, of the Application.

Column 4 shows the balances after including the effects of the adjustments identified in Column 3.

Column 5 contains the amount of adjusted gross Plant in Service and CWIP allocated to retail electric operations.

Q. PLEASE DESCRIBE EXHIBIT NO. __ (JES-5), WHICH IS ALSO EXHIBIT C-5 OF THE APPLICATION.

A. Exhibit No. __ (JES-5) consists of two sections. The first section is the Company's Statement of Depreciation Reserves for Electric Operations at September 30, 2009.

Column 2 shows the amounts recorded on the Company's books for the Reserve for Depreciation by FERC functional classification as described in **Column 1**.

Column 3 summarizes the adjustments to Depreciation Reserves as detailed in Exhibit No. __ (JES-2) and Exhibit C-2 page 4 of 4, of the Application.

Column 4 shows the balances after including the effects of the adjustments identified in column 3.

Column 5 is the amount of Depreciation Reserves allocated to retail electric operations.

Q. PLEASE DESCRIBE EXHIBIT NO. __ (JES-6) WHICH IS ALSO EXHIBIT C-6 OF THE APPLICATION.

A. This exhibit shows the balances of materials and supplies, certain deferred debits and credits, and working capital as reflected on SCE&G's books and after the effects of the accounting and pro forma adjustments.

Q. PLEASE DESCRIBE EXHIBIT NO. __ (JES-7) WHICH IS ALSO EXHIBIT C-7 OF THE APPLICATION.

A. This exhibit shows the components of SCE&G's retail electric pro forma regulatory capitalization and the computation of its weighted average cost of capital as of the end of the test year, both before and after consideration of the requested increase in revenues. As shown here, the return on equity for the test year, after accounting and pro forma adjustments, was 6.82%. In deriving a reasonable return on rate base, the Company has used an 11.6% return on equity as recommended by Company Witness Robert B. Hevert.

Q. MR. SWAN, I NOW ASK THAT YOU RETURN TO EXHIBIT NO. __ (JES-2). PLEASE DESCRIBE PAGE 4 OF 4 OF EXHIBIT NO. __ (JES-2) WHICH IS ALSO EXHIBIT C-2, PAGE 4 OF 4 OF THE APPLICATION.

A. Exhibit No. __ (JES-2) details the accounting and pro forma adjustments that the Company is proposing in this proceeding, by the component of income and rate base to which each adjustment applies.

Q. PLEASE LIST THE ACCOUNTING AND PRO FORMA ADJUSTMENTS THAT YOU DISCUSS IN THIS PREFILED TESTIMONY.

A. The accounting and pro forma adjustments that I discuss herein are as follows. The adjustment numbers coincide with the numbers on page 4 of 4 of Exhibit No. _ (JES-2) and Exhibit C-2 page 4 of 4, of the Application, and the page number directs your attention to the page in this testimony where my discussion of a particular adjustment is located. Also, if applicable, identified are the names of additional Company witnesses whose testimony addresses specific adjustments.

No.	Adjustment Description	Pg.	Witnesses
1.	Wages, benefits & payroll taxes	13	
2.	Incentive pay	13	
3.	Remove pension income	14	
4.	Health care	15	
5.	Eliminate employee clubs investment and expenses	15	
6.	Property retirements	15	
7.	Remove amounts associated with new nuclear generation	16	
8.	CWIP	16	
9.	Additional CWIP	16	
10.	Annualize depreciation based on current rates	17	
11.	Annualize the effect of new depreciation study	17	
12.	Cope SCR	17	Byrne
13.	Peaking turbines	18	Byrne
14.	Amortize peaking turbines deferral over 10 years	18	Byrne
15.	Wateree environmental	19	Byrne
16.	Amortize Wateree deferral over 10 years	19	Byrne
17.	Williams environmental	19	Byrne
18.	Amortize Williams deferral over 10 years	20	Byrne
19.	Adjust property taxes	20	
20.	Annualize insurance premiums	20	
21.	Storm insurance premiums	21	
22.	VCS refueling outage	21	
23.	Cogen South cost assignment	21	
24.	Tree trimming	22	Marsh
25.	Major maintenance	22	Byrne
26.	Wholesale customer adjustment	22	
27.	Adjust fuel inventory	23	Byrne
28.	Economic Impact Zone tax credits	23	Haselden
29.	Amortize upflow modification over 10 years	23	
30.	Full amortization of GridSouth	24	
31.	Amortize capacity purchases over 10 years	24	
32.	Amortize rate case expenses over 5 years	25	

33.	Amortize PSI costs over 3 years	25	
34.	Amortize economic dev. costs over 10 years	26	Marsh
35.	Tax effect of annualized interest	27	

In all cases, the appropriate tax, depreciation, plant in service, working cash and other adjustments associated with these pro forma adjustments have been made.

Q. PLEASE DESCRIBE THE ADJUSTMENTS.

A. **Adjustment No. 1, Wages, benefits & payroll taxes.** This pro forma adjustment increases the test period wages, benefits and payroll taxes to reflect the current level of expense as of the time the pro forma adjustment was prepared. This has been a pro forma adjustment in electric rate cases for many years. The effect of this adjustment is to increase O&M expenses by $7,126,236 and other taxes (specifically payroll taxes) by $505,805.

Adjustment No. 2, Incentive pay. This pro forma adjustment reduces incentive compensation cost and related payroll taxes for the test year to fifty percent of the amounts actually accrued. This adjustment is included for consistency with the Commission's established practice as set forth in prior orders. The effect of this adjustment is to decrease O&M expenses by $8,205,121 and other taxes (payroll taxes) by $525,236.

<u>Adjustment No. 3, Remove pension income</u>. This pro forma adjustment removes pension income recorded during the test period. This adjustment increases test year O&M expenses by $3,525,888.

In past years, the performance of the Company's pension trust has resulted in increasing investment balances in the plan allowing pension income to be recorded. Consistent with past practice and generally accepted accounting principles, such income was recorded for the months of October through December 2008 during the test period. However, conditions in investment markets changed dramatically during late 2008, and as a result, generally accepted accounting principles required the Company to record pension expense beginning in January 2009.

In February 2009, the Commission issued Order No. 2009-81 authorizing the Company to defer this pension expense and to continue to record the pension income which was reflected in current rates until rate recovery for the additional pension expense was established. SCE&G is not proposing to reflect these expenses in this current rate proceeding, but will continue to defer them pursuant to Order No. 2009-81. Test year financial data, however, continue to reflect the pension income recognized in accordance with Order No. 2009-81 as well as the pension income recorded for the months of October – December 2008. All other things being equal, this removal of pension income will serve to reduce the amount of future deferral of costs which will eventually need to be considered in rate proceedings.

<u>Adjustment No. 4, Health care</u>. This adjustment follows past Commission practice and annualizes healthcare costs to reflect the level of cost incurred in the last quarter of the test period and adjusts actual test year expense to reflect the annualized amount. The result is an increase in test year O&M expenses of $1,010,843.

<u>Adjustment No. 5, Eliminate employee clubs investment & expenses</u>. This pro forma adjustment removes from rate consideration the investment and expenses related to employee clubs (the Pine Island Club, Sand Dunes Club and Misty Lake Club). The effect of this adjustment is to lower O&M expenses by $387,954, common plant in service by $4,828,633, depreciation reserves by $1,434,609 and depreciation expense by $179,944.

<u>Adjustment No. 6, Property retirements</u>. This pro forma adjustment reduces plant in service and accumulated depreciation to reflect the recording of asset retirements pending as of the end of the test period. The effect of this adjustment is to lower plant in service by $4,347,891 and depreciation reserves by $4,347,891.

<u>Adjustment No. 7, Remove amounts associated with new nuclear generation</u>. This pro forma adjustment removes from rate base the accumulated balance of $388,203,321 in CWIP, other taxes of $21,757 and incremental revenue of $4,771,235 associated with the investment in the construction of V.C. Summer Station Units 2 & 3. The adjustment reflects the fact that the revenue requirements associated with the Company's new nuclear investment will be determined under the provisions of the Base Load Review Act, S.C. Code Ann. §§ 58-33-200, *et seq*.

Adjustment No. 8, CWIP. This pro forma adjustment increases plant in service and decreases construction work in progress to account for certain projects that were included in CWIP at the end of the test year but for which the "in-service" dates occurred prior to the end of the test year. The adjustment also increases plant in service to reflect the projected additional unrecovered costs associated with the Saluda Dam Remediation project occurring after the end of the test period. As with the other proposed utility plant adjustments, this entry was computed in a manner consistent with practice in prior proceedings. The result is an increase in plant in service of $12,728,445.

Adjustment No. 9, Additional CWIP. This pro forma adjustment removes from CWIP balances and adds to plant in service the amount of CWIP associated with certain work orders that were closed after the end of the test period. The result is an increase in plant in service of $17,083,088.

Adjustment No. 10, Annualize depreciation. This pro forma adjustment increases depreciation expense and reserves by $2,019,941 to provide for the recognition of a full year of depreciation on all the pro forma adjustments to the plant in service balance discussed above, at the currently approved depreciation rates.

Adjustment No. 11, Annualize the effect of new depreciation study. This pro forma adjustment reduces depreciation and amortization expense and reserves by $13,440,373 to reflect the effect of the new depreciation rates that are being presented in this proceeding by the Company's witness, Mr. John S. Spanos.

Adjustment No. 12, Cope SCR. The effect of this adjustment is to include in depreciation expense and reserves the amount of annual depreciation (at the new depreciation rates) on the new Selective Catalytic Reactor ("SCR") that went into commercial operation at Cope Station in 2008. In Order No. 2008-741, the Commission authorized the Company to "delay the commencement of depreciation that the Company will incur after certain pollution control facilities are completed and placed in utility service." The Cope SCR was one of the pollution control facilities referenced in Order No. 2008-741. The effect of this adjustment is to increase depreciation expense and reserves by $2,921,647.

Adjustment No. 13, Peaking turbines. This pro forma adjustment increases plant in service, depreciation and amortization expense and depreciation reserves (at the new depreciation rates) to reflect the cost of acquiring and installing two simple-cycle natural gas peaking turbines at Plant Hagood in North Charleston. The effect of this adjustment on gross plant in service is an increase of $44,652,576 as well as an increase in depreciation of $2,076,345 and depreciation reserves of that same amount.

<u>Adjustment No. 14, Amortize peaking turbines deferral over 10 years</u>. The Company is requesting that it be allowed to defer the depreciation expense associated with these new turbines until recovery is provided for in Phase 3 of this rate request. This pro forma adjustment increases depreciation and amortization expense by $207,634 to reflect the amortization of the deferred amount over 10 years. The 10-year amortization period for these costs, and the similar Williams and Wateree deferral costs, as well as the V.C. Summer Station upflow modification costs, reflects a reasonable balance between the Company's need for timely recovery and the longer term nature of the assets with which the costs are associated.

<u>Adjustment No. 15, Wateree environmental</u>. The effect of this adjustment is to reflect the depreciation expense, operation and maintenance ("O&M") expense, and the plant in service associated with commercial operation of the flue gas desulfurization unit and associated facilities (the "scrubber") installed at Wateree Station. The increase in plant in service is $283,377,755 with a corresponding decrease in CWIP of $259,693,399 and an increase to O&M expenses of $3,149,354. This adjustment also increases depreciation expense and reserves by $11,992,141.

Adjustment No. 16, Amortize Wateree deferral over 10 years. The Company is requesting that it be allowed to defer the depreciation and incremental O&M expenses associated with the Wateree Scrubber until recovery is provided for in Phase 3 of this rate request. This pro forma adjustment increases depreciation and amortization expense by $1,514,150 to reflect the amortization over 10 years of this deferral.

Adjustment No. 17, Williams environmental. The effect of this adjustment is to reflect the increase in O&M expense associated with commercial operation of the scrubber installed at the Williams Station. Williams Station is operated by SCE&G but is owned by South Carolina Generating Company, Inc. ("GENCO"), which is a wholly-owned subsidiary of SCANA and an affiliate of SCE&G. All power generated at Williams Station is sold to SCE&G under a unit power sales agreement which includes a FERC approved formula rate that passes current operating and capital costs associated with Williams Station on to SCE&G as a purchased power cost. The annualized increase in SCE&G's O&M cost (purchased power) associated with the Williams scrubber is $28,993,585.

Adjustment No. 18, Amortize Williams deferral over 10 years. Pursuant to Order No. 2008-741, the Company is deferring the incremental purchased power costs associated with the Williams Scrubber. The Company is requesting that it be allowed to continue this deferral until recovery is provided for in Phase 2 of this rate request. This pro forma adjustment increases depreciation and amortization expense by $2,899,358 to reflect the amortization of this deferral over 10 years.

<u>Adjustment No. 19, Adjust property taxes</u>. This pro forma adjustment applies the current property tax millage rates to the assessable plant in service amounts as of the end of the test year, including the pro forma entries impacting plant in service described herein, and thereby increases taxes other than income taxes for the test year by $5,456,574.

<u>Adjustment No. 20, Annualize insurance expense</u>. This pro forma adjustment increases O&M expenses by $34,763 to annualize the current cost of premiums for the standard casualty insurance policies on utility assets that were in place at the end of the test year.

<u>Adjustment No. 21, Storm insurance premiums</u>. This pro forma adjustment increases O&M expenses by $3,210,000 to reflect the current cost of storm damage insurance premiums. In Order No. 2007-680, the Commission approved the application of transmission and distribution storm insurance premiums to the Storm Damage Reserve rather than their being reflected in O&M expense. This pro forma will allow the cost of these premiums to be recovered through rates rather than being applied as a reduction to the storm damage reserve going forward.

<u>Adjustment No., 22, Annualize VCS refueling outage</u>. This pro forma adjustment reduces test year O&M expenses by $92,593 to reflect the annualized cost of the refueling outage at V.C. Summer Station Unit 1.

These refueling outages occur on an 18-month cycle. Consistent with established precedent in past cases, the Company establishes an accrual, based on estimated costs for each outage cycle, to record over the 18-month cycle. This pro forma adjusts test period outage accrual amounts to reflect the annualized monthly accrual as of the end of the test period.

Adjustment No. 23, Cogen South cost assignment. Cogen South is a biomass steam and electric generation facility associated with the Kraft paper manufacturing facility in North Charleston, South Carolina, formerly owned by Westvaco. Various biomass wastes are burned at the facility with other fuels to produce industrial process steam and to provide energy for generation of electricity by SCE&G. The owner of the plant charges SCE&G for the energy used for electric generation and segregates the charge for that energy between fuel costs and O&M expense. The segregation of cost was reviewed and adjusted during the test year. Annualizing the current assignment lowers SCE&G's O&M expenses by $2,221,663.

Adjustment No. 24, Tree trimming. This pro forma adjustment increases O&M expenses by $6,612,809 to reflect the increase in SCE&G's annual commitment to its tree trimming and vegetation management program. Mr. Marsh is testifying concerning the details of this adjustment.

Adjustment No. 25, Major maintenance. The effect of this adjustment is to increase expenses by $10,789,611 to reflect the levelized cost of SCE&G's turbine maintenance program through 2018. In Order No. 2005-2, the Commission authorized the Company to levelize its turbine maintenance charges over an eight-year cycle by establishing an annual accrual amount and charging actual turbine maintenance costs against that accrual. This adjustment updates the amount of that annual accrual to reflect updated cost projections and to extend the accrual cycle through 2018. Mr. Byrne is testifying concerning the operational basis for this adjustment. In light of the extended accrual cycle, and to reflect the fact that the turbine maintenance account is anticipated to carry an under-collection during the initial years, the Company proposes that over-recovery or under-recovery balances in the turbine maintenance account bear interest at the 10-Year United States Treasury Bill rate plus 0.65 percentage points. This rate reflects a very modest cost for short term debt.

Adjustment No. 26, Wholesale customer adjustment. This pro forma adjustment reduces test year revenue by $16,604,875 and test year expenses by $10,046,255 to reflect the annualized effect of the expiration of SCE&G's wholesale service contract with the City of Greenwood. SCE&G served the City of Greenwood as its wholesale power supplier from 2002 to December 31, 2009.

Adjustment No. 27, Adjust fuel inventory. As Mr. Byrne is testifying, to measure a reasonable level of coal inventories, SCE&G has taken the 26-month average of forecasted coal inventories through

November 2011. The effect of this adjustment is to increase test year inventory by $26,615,328.

<u>Adjustment No. 28, Economic impact zone tax credit</u>. As Company Witness Tami S. Haselden is tesifying, SCE&G has generated Economic Impact Zone Tax Credits under S.C. Code Ann. § 12-14-10, *et seq.* This pro forma adjustment amortizes a portion of these credits over 5 years and results in a reduction of state tax expense by $11,251,074 which is partially offset by an increase in federal tax expense of $3,937,876. Other of these deferred state tax credits have been presented for possible offset to fuel costs in Docket No. 2010-2-E.

<u>Adjustment No. 29, Amortize upflow modification over 10 years</u>. Order No. 2007-644 authorized the Company to defer charges "incurred in connection with the Company's reconfiguration of the flow of coolant in the pressurized water reactor of V. C. Summer Nuclear Station to minimize the effects of baffle jetting, including the costs that SCE&G incurred in 2007 in connection with its temporary remedial measure of fuel rod clipping and any future costs that the Company may incur associated with fuel rod clipping to minimize baffle jetting." SCE&G is proposing to amortize these deferred amounts over 10 years. The effect of this adjustment is an increase in O&M expenses of $588,207.

<u>Adjustment No. 30, Full amortization of GridSouth</u>. GridSouth was a project jointly undertaken by SCE&G, Duke Power and Carolina

Power & Light Company to form a Regional Transmission Organization in response to Federal Energy Regulatory Commission (FERC) Order No. 2000. FERC provisionally accepted GridSouth's initial application for regulatory approval, but later withdrew its acceptance and the project was abandoned. In Order No. 2005-2, the Commission allowed SCE&G to amortize into rates its share of the costs of GridSouth. That amortization was completed in December 2009 and no additional amounts need to be recovered going forward. The effect of the present adjustment is to lower O&M expenses by $2,713,691.

<u>Adjustment No. 31, Amortize capacity purchases</u>. By Order No. 2008-530, the Commission approved the deferral "of all capacity charges incurred as a result of purchasing power to meet customer and system needs during the 2008-2018 time period." These purchases are necessary for the Company to meet the growing needs for electric power by its customers and to maintain the reliability of its electric system. The Company is proposing to amortize the costs associated with these purchases over 10 years. The resulting adjustment increase O&M expense by $296,000.

<u>Adjustment No. 32 Amortize rate case expenses</u>. This pro forma adjustment amortizes the incremental costs of preparing and presenting this proceeding over five years. The amortization period of five years represents the longest period that the Company has gone between rate proceedings in recent years. If the Company were to file another rate case within that five year period, any unamortized amounts could be carried forward in that next case. The effect of this adjustment is to increase O&M expenses by $92,045.

Adjustment No. 33, Amortize PSI costs. This adjustment amortizes Preliminary Survey and Investigation ("PSI") costs associated with the Company's review and planning for compliance with new ground water protection regulations in renewed National Pollutant Discharge Elimination System ("NPDES") permits issued by the South Carolina Department of Health and Environmental Control ("DHEC"). While the Company was performing the necessary investigations to ensure compliance for future permits, these new NPDES permit restrictions were modified such that SCE&G will be able to meet its permit limitations without the need for costly treatment system upgrades. As a result, SCE&G did not have to move forward with the upgrade alternatives being evaluated. The Company is requesting to amortize the costs it accumulated in this PSI account associated with these evaluation studies over a three-year period. The effect of this adjustment is to increase O&M expense by $315,943.

Adjustment No. 34, Amortize economic development grant. As Mr. Marsh is testifying, the Company was part of a successful economic development team that convinced the Crane Company to consolidate its Dixie-Narco vending machine manufacturing operations in the Town of Williston, which is located in Barnwell, County, South Carolina. This decision will lead to the creation of approximately 1,000 jobs in an economically challenged rural area. SCE&G provided a key grant for this effort. By Order No. 2009-997, the Commission authorized the deferral of these expenses as a regulatory asset and the amortization of them into electric operating expenses over a ten year period which reflects the length of the new electric service contract associated with the plant expansion. SCE&G proposes to continue that treatment of those expenses for purposes of this rate proceeding. The effect of this adjustment is to increase O&M expense by $100,000.

Adjustment No. 35, Tax effect of annualized interest. This pro forma adjusts state and federal tax expense to reflect the tax impact of lower interest expense associated with the rate base pro forma adjustments set forth above. The effect of this adjustment is to increase federal tax expense by $2,826,992 and state tax expense by $425,112.

Q. MR. SWAN, DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes. It does.

South Carolina Electric & Gas Company
Condensed Consolidated Balance Sheets (Regulatory Basis)
September 30, 2009

	September 30, 2009
Assets:	
Total Utility Plant	8,718
Less Accumulated Deprec. and Amortization	(3,279)
Total	5,439
Construction Work in Progress	858
Nuclear Fuel, Net of Accumulated Amortization	99
Utility Plant, Net	6,396
Other Property and Investments:	
Nontility Property, Net of Accum Deprec	49
Trust Assets	92
Other Investments	1
Other Property and Investments	142
Current Assets:	
Cash and Temporary Cash Investments	64
Receivable - Customer and Other	368
Receivable - Affiliated Companies	(9)
Inventories (At Average Cost):	
Fuel	199
Materials and Supplies	98
Emission Allowances	11
Prepayments	60
Misc. Current Assets	1
Deferred Income Taxes	0
Total Current Assets	792
Deferred Debits:	
Accumulated Deferred Income Taxes	208
Regulatory Assets	922
Other	135
Total Deferred Debits	1,265
Total Assets	$8,595

South Carolina Electric & Gas Company
Condensed Consolidated Balance Sheets (Regulatory Basis)
September 30, 2009

	September 30, 2009
Capitalization and Liabilities:	
Capitalization:	
Common Stock ($4.50 Par Value)	181
Prem on Common Stock and Other Paid in Capital	1,425
Capital Stock Expense (Debit)	(5)
Retained Earnings	1,406
Total Common Equity	3,007
Noncontrolling Interest	0
Total Equity	3,007
Preferred Stock (Not Subject to Purchase or Sinking Funds)	106
Preferred Stock (Subject to Purchase or Sinking Funds)	7
Long-Term Debt, Net	2,651
Total Capitalization	5,772
Current Liabilities:	
Short-Term Borrowings	242
Current Portion of Long-Term Debt	10
Accounts Payable	123
Accounts Payable - Affiliated Companies	80
Customer Deposits	36
Taxes Accrued	133
Interest Accrued	43
Dividends Declared	46
Derivative Liabilities	11
Other	41
Total Current Liabilities	764
Deferred Credits	
Deferred Income Taxes	1,096
Deferred Investment Tax Credits	107
Asset Retirement Obligations and Related Funding	435
Due to parent - Post Retirement Benefit	252
Regulatory Liabilities	136
Other	34
Total Deferred Credits	2,060
Total Capitalization and Liabilities	$8,595

South Carolina Electric & Gas
Condensed Consolidated Income Statement (Regulatory basis)
For the Twelve Months ended September 30, 2009
(Millions of Dollars)

	Twelve Months Ended September 30, 2009
Operating Revenues	
Electric	2,143
Gas	439
Total Operating Revenues	2,582
Operating Expenses	
Fuel Used in Electric Generation	628
Purchased Power	226
Gas purchased for Resale	300
Other operation and maintenance	479
Depreciation and amortization	265
Other taxes	156
Total Operating Expenses	2,054
Operating Income	528
Other Income(Expense)	
Other Income	37
Other Expenses	(12)
Allowance for equity funds used during construction	24
Interest charges, net of allowance for borrowed funds used during construction	(152)
Total Other Expense	(103)
Income Before Income Tax Expense and Preferred Stock Dividends	425
Income Tax Expense	142
Net Income	283
Preferred Stock Cash Dividends Declared	7
Earnings Available for Common Shareholder	276

See Notes to Condensed Consolidated (Regulatory Basis) Financial Statements

SOUTH CAROLINA ELECTRIC & GAS COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2009
(Unaudited)

On July 1, 2009 the Financial Accounting Standards Board (FASB) Accounting Standards Codification (the Codification or ASC) became the single source of authoritative accounting principles generally accepted in the United States (GAAP). Throughout these notes, references to previous GAAP have been replaced with reference to the ASC.

These regulatory basis financial statements include the accounts of South Carolina Electric & Gas Company (the Company) and South Carolina Fuel Company, Inc. (Fuel Company) only. They exclude the accounts of South Carolina Generating Company, Inc., which, under the provisions of the FASB Interpretation 46R, codified as *ASC 810, Consolidation*, would be consolidated with the Company in order for the financials to be in conformity with generally accepted accounting principles.

The following notes should be read in conjunction with the Notes to Consolidated Financial Statements appearing in the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2009 and the Notes to Consolidated Financial Statements appearing in the Company's Annual Report on Form 10-K, as amended, for the year ended December 31, 2008. In the opinion of management, the information furnished herein reflects all adjustments, all of a normal recurring nature, which are necessary for a fair statement of the results for the interim periods reported. The Company has evaluated subsequent events through November 4, 2009, which is the date these financial statements were issued.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Variable Interest Entity

An enterprise's consolidated financial statements are required to include entities in which the enterprise has a controlling financial interest. SCE&G has determined that it has a controlling financial interest in Fuel Company, and accordingly, the accompanying condensed consolidated financial statements include the accounts of SCE&G, and Fuel Company. The equity interests in Fuel Company are held solely by SCANA Corporation (SCANA), the Company's parent. Accordingly, Fuel Company's equity and results of operations are reflected as noncontrolling interest in the Company's condensed consolidated financial statements.

B. Basis of Accounting

The Company has significant cost-based, rate-regulated operations and recognizes in its financial statements certain revenues and expenses in different time periods than do enterprises that are not rate-regulated. As a result, the Company has recorded regulatory assets and regulatory liabilities, summarized as follows.

Millions of dollars		September 30, 2009
Regulatory Assets:		
Accumulated deferred income taxes	$	155
Under collections – electric fuel adjustment clause		65
Environmental remediation costs		19
Asset retirement obligations and related funding		246
Franchise agreements		47
Deferred employee benefit plan costs		333
Other		64
Total Regulatory Assets	$	929
Regulatory Liabilities:		
Accumulated deferred income taxes	$	27
Other asset removal costs		496
Storm damage reserve		51
Planned major maintenance		16
Other		25
Total Regulatory Liabilities	$	615

Accumulated deferred income tax liabilities arising from utility operations that have not been included in customer rates are recorded as a regulatory asset. Accumulated deferred income tax assets arising from deferred investment tax credits are recorded as a regulatory liability.

Under-collections - electric fuel adjustment clause represent amounts due from customers pursuant to the fuel adjustment clause as approved by the Public Service Commission of South Carolina (SCPSC) during annual hearings which are expected to be recovered in retail electric rates during the period October 2010 through April 2012. As a part of a settlement agreement approved by the SCPSC in April 2009, SCE&G is allowed to collect interest on the deferred balance during the recovery period.

Environmental remediation costs represent costs associated with the assessment and clean-up of manufactured gas plant (MGP) sites currently or formerly owned by SCE&G. Costs incurred by SCE&G at such sites are being recovered through rates. SCE&G is authorized to amortize $1.4 million of these costs annually.

Asset retirement obligations (ARO) and related funding represents the regulatory asset associated with the legal obligation to decommission and dismantle V. C. Summer Nuclear Station (Summer Station) and conditional AROs.

Franchise agreements represent costs associated with electric and gas franchise agreements with the cities of Charleston and Columbia, South Carolina. Based on the SCPSC order, SCE&G began amortizing these amounts through cost of service rates in February 2003 over approximately 20 years.

Deferred employee benefit plan costs represent amounts of pension and other postretirement benefit costs which were accrued as liabilities, and the costs deferred pursuant to specific regulatory orders (Note 1D), but which are expected to be recovered through utility rates.

Other asset removal costs represent net collections through depreciation rates of estimated costs to be incurred for the removal of assets in the future.

The storm damage reserve represents an SCPSC-approved collection through SCE&G electric rates, capped at $100 million, which can be applied to offset incremental storm damage costs in excess of $2.5 million in a calendar year, certain transmission and distribution insurance premiums and certain tree trimming expenditures in excess of amounts included in base rates. During the twelve months ended September 30, 2009 SCE&G applied costs of $5.2 million to the reserve.

Planned major maintenance related to certain fossil hydro turbine/generation equipment and nuclear refueling outages is accrued in advance of the time the costs are incurred, as approved through specific SCPSC orders. SCE&G collects $8.5 million annually, ending December 2013, through electric rates to offset turbine maintenance expenditures. Nuclear refueling charges are accrued during each 18-month refueling outage cycle as a component of cost of service.

The SCPSC or the United States Federal Energy Regulatory Commission (FERC) have reviewed and approved through specific orders most of the items shown as regulatory assets. Other regulatory assets include certain costs which have not been approved for recovery by the SCPSC or by FERC. In recording these costs as regulatory assets, management believes the costs will be allowable under existing rate-making concepts that are embodied in rate orders received by the Company. In addition, the Company has deferred in utility plant in service approximately $74.2 million of unrecovered costs related to the Lake Murray backup dam project and $70.1 million of costs related to the installation of selective catalytic reactor (SCR) technology at its Cope Station generating facility. See Note 7B. These costs are not currently being recovered, but are expected to be recovered through rates in future periods. In the future, as a result of deregulation or other changes in the regulatory environment, the Company may no longer meet the criteria of accounting for rate-regulated utilities, and could be required to write off its regulatory assets and liabilities. Such an event could have a material adverse effect on the Company's results of operations, liquidity or financial position in the period the write-off would be recorded.

C. Affiliated Transactions

With respect to affiliated transactions at September 30, 2009, reference is made to Note 1N to the consolidated financial statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2008 and Note 1C to the condensed consolidated financial statements in the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2009. No changes have occurred with respect to these matters as reported therein. SCE&G purchases all of the electric generation of Williams Station, which is owned by South Carolina Generating Company (GENCO), under a unit power sales agreement. SCE&G had approximately $9.0 million and $20.4 million, payable to GENCO for unit power purchases at September 30, 2009 and December 31, 2008, respectively. Such unit power purchases, which are included in "Purchased power," amounted to approximately $207.6 million for the twelve months ended September 30, 2009.

2. RATE AND OTHER REGULATORY MATTERS

Electric

With respect to rate and regulatory matters at September 30, 2009, reference is made to Note 2 to the consolidated financial statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2008 and Note 2 to the condensed consolidated financial statements in the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2009. No changes have occurred with respect to these matters as reported therein.

3. LONG-TERM DEBT AND LIQUIDITY

Long-term Debt

In March 2009, SCE&G issued $175 million of First Mortgage Bonds bearing an annual interest rate of 6.05% and maturing on January 15, 2038. Proceeds from the sale were used to repay short-term debt and for general corporate purposes.

Substantially all of SCE&G's electric utility plant is pledged as collateral in connection with long-term debt. The Company is in compliance with all debt covenants.

<u>Liquidity</u>

SCE&G (including Fuel Company) had available the following committed lines of credit (LOC), and had outstanding the following LOC advances, commercial paper, and LOC-supported letter of credit obligations:

	SCE&G [a][b]	
Millions of dollars	September 30, 2009	December 31, 2008
Lines of credit:		
Committed long-term (expire December 2011)		
Total	$ 650	$ 650
LOC advances	75	285
Weighted average interest rate	.52%	1.61%
Outstanding commercial paper (270 or fewer days)	242	34
Weighted average interest rate	.36%	5.69%
Letters of credit supported by LOC	.3	-
Available	333	331

[a] Nuclear and fossil fuel inventories and emission allowances are financed through the issuance by Fuel Company of LOC advances or short-term commercial paper.

[b] SCE&G and Fuel Company may issue commercial paper in the amounts of up to $350 million for SCE&G and up to $250 million for Fuel Company.

The committed long-term facilities are revolving lines of credit under credit agreements with a syndicate of banks. Wachovia Bank, National Association and Bank of America, N.A. each provide 14.3% of the aggregate $650 million credit facilities, Branch Banking and Trust Company, UBS Loan Finance LLC, Morgan Stanley Bank, and Credit Suisse, each provide 10.9%, and The Bank of New York and Mizuho Corporate Bank, Ltd each provide 9.1%. Four other banks provide the remaining 9.6%. These bank credit facilities support the issuance of commercial paper by SCE&G (including Fuel Company). When the commercial paper markets are dislocated (due to either price or availability constraints), the credit facilities are available to support the borrowing needs of SCE&G (including Fuel Company).

4. COMMON EQUITY

Changes in common equity as of September 30, 2009 were as follows:

In Millions	Common Equity	Noncontrolling Interest	Total Equity
Balance at January 1, 2009	$ 2,704	$ 1	$ 2,705
Capital contribution from parent	204	-	204
Dividends declared	(130)	-	(130)
Net income	228	-	228
Balance as of September 30, 2009	$ 3,006	$ 1	$ 3,007

5. DERIVATIVE FINANCIAL INSTRUMENTS

The Company recognizes all derivative instruments as either assets or liabilities in the statement of financial position and measures those instruments at fair value. The Company recognizes changes in the fair value of derivative instruments either in earnings or as a component of other comprehensive income (loss), depending upon the intended use of the derivative and the resulting designation. The fair value of derivative instruments is determined by reference to quoted market prices of listed contracts, published quotations or, for interest rate swaps, discounted cashflow models with independently sourced data.

Policies and procedures and risk limits are established to control the level of market, credit, liquidity and operational and administrative risks assumed by the Company. SCANA's Board of Directors has delegated to a Risk Management Committee the authority to set risk limits, establish policies and procedures for risk management and measurement, and oversee and review the risk management process and infrastructure. The Risk Management Committee, which is comprised of certain officers, including the Company's Risk Management Officer and senior officers, apprises the Board of Directors with regard to the management of risk and brings to the Board's attention any areas of concern. Written policies define the physical and financial transactions that are approved, as well as the authorization requirements and limits for transactions.

The Company's regulated gas operations hedge natural gas purchasing activities using over-the-counter options and swaps and New York Mercantile Exchange (NYMEX) futures and options. The Company's tariffs include a PGA that provides for the recovery of actual gas costs incurred. The SCPSC has ruled that the results of these hedging activities are to be included in the PGA. As such, the cost of derivatives and gains and losses on such derivatives utilized to hedge gas purchasing activities are recoverable through the weighted average cost of gas calculation. The offset to the change in fair value of these derivatives is recorded as a regulatory asset or liability. These derivative financial instruments are not designated as hedges.

The Company uses interest swaps to manage interest rate risk on certain debt issuances. In particular, the Company uses swaps to synthetically convert variable rate debt to fixed rate debt. In addition, in anticipation of the issuance of debt, the Company may use treasury rate lock or swap agreements. These arrangements are designated as cash flow hedges. The effective portions of changes in fair value and payments made or received upon termination of such agreements are recorded in regulatory assets or regulatory liabilities and amortized to interest expense over the term of the underlying debt. Ineffective portions are recognized in income.

The effective portion of settlement payments made or received upon termination are amortized to interest expense over the term of the underlying debt and are classified as a financing activity in the consolidated statement of cash flows. The Company does not have any financial instruments designated as fair value hedges.

Quantitative Disclosures Related to Derivatives

At September 30, 2009, the Company was party to natural gas derivative contracts for 3,514,000 dekatherms. Also at September 30, 2009, the Company was a party to interest rate swaps designated as cash flow hedges with an aggregate notional amount of $185 million.

Fair Values of Derivative Instruments

As of September 30, 2009 Millions of dollars	Asset Derivatives Balance Sheet Location [(a)]	Fair Valu e	Liability Derivatives Balance Sheet Location [(a)]	Fair Value
Derivatives designated as hedging instruments				
Interest rate contracts	Other deferred debits	$ 3	Derivative liabilities	$ 9
			Other deferred credits	-
Total		$ 3		$ 9
Derivatives not designated as hedging instruments				
Commodity contracts	Prepayments and other	1	Accounts receivable	1
			Derivative liabilities	2
Total		$ 1		$ 3

[(a)] Asset derivatives represent unrealized gains to the Company, and liability derivatives represent unrealized losses. In the Company's condensed consolidated balance sheet, unrealized gain and loss positions with the same counterparty are reported as either a net asset or liability.

The effect of derivative instruments on the statement of income for twelve months ended September 30, 2009 is as follows:

Derivatives in Cash Flow Hedging Relationships Millions of dollars	Gain or (Loss) Deferred in Regulatory Accounts (Effective Portion) 2009	Gain or (Loss) Reclassified from Deferred Accounts into Income (Effective Portion) Location	Amount
Interest rate contracts	$ (5)	Interest expense	$ (2)
Total	$ (5)		$ (2)

Derivatives Not Designated as Hedging Instruments Millions of dollars	Gain or (Loss) Recognized in Income Location	Amount
Commodity contracts	Gas purchased for resale	$ (15)
Total		$ (15)

Hedge Ineffectiveness

Other gains (losses) recognized in income representing interest rate hedge ineffectiveness were $0.4 million, net of tax, for the twelve months ended September 30, 2009, respectively. These amounts are recorded within interest expense on the statement of income.

Credit Risk Considerations

Certain of the Company's derivative instruments contain contingent provisions that require the Company to provide collateral upon the occurrence of specific events, primarily credit downgrades. As of September 30, 2009, the Company has posted no collateral related to derivatives with contingent provisions that are in a net liability position. If all of the contingent features underlying these instruments were fully triggered as of September 30, 2009, the Company would be required to post $7.6 million of collateral to its counterparties. The aggregate fair value of all derivative instruments with contingent provisions that are in a net liability position as of September 30, 2009, is $7.6 million.

6. FAIR VALUE MEASUREMENTS, INCLUDING DERIVATIVES

The Company values commodity derivative assets and liabilities using unadjusted NYMEX prices, and considers such measure of fair value to be Level 1 for exchange traded instruments and Level 2 for over-the-counter instruments. The Company's interest rate swap agreements are valued using discounted cashflow models with independently sourced data. Fair value measurements, and the level within the fair value hierarchy in which the measurements fall, were as follows:

	Fair Value Measurements Using	
Millions of dollars	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
As of September 30, 2009		
Assets - Derivative instruments	$ 2	$ 3
Liabilities - Derivative instruments	-	11

There were no fair value measurements based on significant unobservable inputs (Level 3) for either date presented.

The financial instruments for which the carrying amount may not equal estimated fair value at September 30, 2009 were as follows:

Millions of dollars	Carrying Amount	Estimated Fair Value
Long-term debt	$ 2,660.6	$ 2,922.1
Preferred stock (not subject to purchase or sinking funds)	106.3	103.6
Preferred stock (subject to purchase or sinking funds)	7.1	6.6

Fair values of long-term debt are based on quoted market prices of the instruments or similar instruments. For debt instruments for which no quoted market prices are available, fair values are based on net present value calculations. Carrying values reflect the fair values of interest rate swaps based on settlement values obtained from counterparties. Early settlement of long-term debt may not be possible or may not be considered prudent.

The fair value of preferred stock is estimated using market quotes. Potential taxes and other expenses that would be incurred in an actual sale or settlement have not been considered.

7. COMMITMENTS AND CONTINGENCIES

Reference is made to Note 10 to the consolidated financial statements appearing in the Company's Annual Report on Form 10-K for the year ended December 31, 2008. Commitments and contingencies at September 30, 2009 include the following:

A. Nuclear Insurance

The Price-Anderson Indemnification Act deals with public liability for a nuclear incident and establishes the liability limit for third-party claims associated with any nuclear incident at $12.5 billion. Each reactor licensee is currently liable for up to $117.5 million per reactor owned by such licensee for each nuclear incident occurring at any reactor in the United States, provided that not more than $17.5 million of the liability per reactor would be assessed per year. SCE&G's maximum assessment, based on its two-thirds ownership of Summer Station, would be $78.3 million per incident, but not more than $11.7 million per year.

SCE&G currently maintains policies (for itself and on behalf of Santee Cooper, a one-third owner of Summer Station) with Nuclear Electric Insurance Limited. The policies, covering the nuclear facility for property damage, excess property damage and outage costs, permit retrospective assessments under certain conditions to cover insurer's losses. Based on the current annual premium, SCE&G's portion of the retrospective premium assessment would not exceed $14.2 million.

To the extent that insurable claims for property damage, decontamination, repair and replacement and other costs and expenses, including replacement power, arising from a nuclear incident at Summer Station exceed the policy limits of insurance, or to the extent such insurance becomes unavailable in the future, and to the extent that SCE&G's rates would not recover the cost of any purchased replacement power, SCE&G will retain the risk of loss as a self-insurer. SCE&G has no reason to anticipate a serious nuclear incident. However, if such an incident were to occur, it would have a material adverse impact on the Company's results of operations, cash flows and financial position.

B. Environmental

The United States Environmental Protection Agency (EPA) issued a final rule in 2005 known as the Clean Air Interstate Rule (CAIR). CAIR requires the District of Columbia and 28 states, including South Carolina, to reduce nitrogen oxide and sulfur dioxide emissions in order to attain mandated state levels. CAIR set emission limits to be met in two phases beginning in 2009 and 2015, respectively, for nitrogen oxide and beginning in 2010 and 2015, respectively, for sulfur dioxide. Numerous states, environmental organizations, industry groups and individual companies challenged the rule, seeking a change in the method CAIR used to allocate sulfur dioxide emission allowances. On December 23, 2008, the United States Court of Appeals for the District of Columbia Circuit remanded the rule but did not vacate it. Prior to the Court of Appeals' decision, SCE&G determined that additional air quality controls would be needed to meet the CAIR requirements. SCE&G has completed the installation of SCR technology at Cope Station for nitrogen oxide reduction and is installing wet limestone scrubbers at Wateree Station for sulfur dioxide reduction. The Company expects to incur capital expenditures totaling approximately $323 million through 2010 for these scrubber projects. The Company cannot predict when the EPA will issue a revised rule or what impact the rule will have on SCE&G. Any costs incurred to comply with this rule or other rules issued by the EPA in the future are expected to be recoverable through rates.

On April 17, 2009 the EPA issued a proposed finding that atmospheric concentrations of greenhouse gasses endanger public health and welfare within the meaning of Section 202(a) of the Clean Air Act. The proposed finding, as finalized, enables the EPA to regulate greenhouse gas emissions under the Clean Air Act. On September 30, 2009, the EPA issued a proposed rule that would require large facilities emitting over 25,000 tons of greenhouse gases (GHG) a year (such as SCE&G) to obtain permits demonstrating that they are using the best practices and technologies to minimize GHG emissions. The Company expects that any costs incurred to comply with greenhouse gas emission requirements will be recoverable through rates.

SCE&G maintains an environmental assessment program to identify and evaluate its current and former operations sites that could require environmental clean-up. As site assessments are initiated, estimates are made of the amount of expenditures, if any, deemed necessary to investigate and remediate each site. These estimates are refined as additional information becomes available; therefore, actual expenditures could differ significantly from the original estimates. Amounts estimated and accrued to date for site assessments and clean-up relate solely to regulated operations. SCE&G defers site assessment and cleanup costs and recovers them through rates (see Note 1).

SCE&G is responsible for four decommissioned MGP sites in South Carolina which contain residues of by-product chemicals. These sites are in various stages of investigation, remediation and monitoring under work plans approved by the South Carolina Department of Health and Environmental Control. SCE&G anticipates that major remediation activities at these sites will continue until 2012 and will cost an additional $9.3 million. In addition, the National Park Service of the Department of the Interior made an initial demand to SCE&G for payment of $9.1 million for certain costs and damages relating to the MGP site in Charleston, South Carolina. SCE&G expects to recover any cost arising from the remediation of these four sites, net of insurance recovery, through rates. At September 30, 2009, deferred amounts, net of amounts previously recovered through rates and insurance settlements, totaled $19.3 million.

The Company is also engaged in various other environmental matters incidental to its business operations which management anticipates will be resolved without a material adverse impact on the Company's results of operations, cash flows or financial condition.

C. Claims and Litigation

In May 2004, a purported class action lawsuit styled as Douglas E. Gressette, individually and on behalf of other persons similarly situated v. South Carolina Electric & Gas Company and SCANA Corporation was filed in South Carolina's Circuit Court of Common Pleas for the Ninth Judicial Circuit. The plaintiff alleges that SCANA and SCE&G made improper use of certain easements and rights-of-way by allowing fiber optic communication lines and/or wireless communication equipment to transmit communications other than SCANA's and SCE&G's electricity-related internal communications. The plaintiff asserted causes of action for unjust enrichment, trespass, injunction and declaratory judgment, but did not assert a specific dollar amount for the claims. SCANA and SCE&G believe their actions are consistent with governing law and the applicable documents granting easements and rights-of-way. In June 2007, the Circuit Court issued a ruling that limits the plaintiff's purported class to owners of easements situated in Charleston County, South Carolina. In February 2008 the Circuit Court issued an order to conditionally certify the class, which remains limited to easements in Charleston County. In July 2008, the plaintiff's motion to add SCANA Communications, Inc. (SCI) to the lawsuit as an additional defendant was granted. Trial is not anticipated before the summer of 2010. SCANA, SCI and SCE&G will continue to mount a vigorous defense and believe that the resolution of these claims will not have a material adverse impact on their results of operations, cash flows or financial condition.

The Company is also engaged in various other claims and litigation incidental to its business operations which management anticipates will be resolved without a material adverse impact on the Company's results of operations, cash flows or financial condition.

D. Nuclear Generation

In May 2008, SCE&G and Santee Cooper announced that they had entered into a contractual agreement for the design and construction of two 1,117-megawatt nuclear electric generation units at the site of Summer Station. SCE&G and Santee Cooper will be joint owners and share operating costs and generation output of the two additional units, with SCE&G responsible for 55 percent of the cost and receiving 55 percent of the output, and Santee Cooper responsible for and receiving the remaining 45 percent. Assuming timely receipt of federal and state approvals and construction proceeding as scheduled, the first unit is expected to completed and in service in 2016, the second in 2019. SCE&G's share of the estimated cash outlays (future value) totals $6.5 billion for plant costs and related transmission infrastructure costs, and is projected based on historical one-year and five-year escalation rates as required by the SCPSC.

8. SEGMENT OF BUSINESS INFORMATION

The Company's reportable segments are listed in the following table. The Company uses operating income to measure profitability for its regulated operations. Therefore, earnings available to the common shareholder are not allocated to the Electric Operations and Gas Distribution segments. Intersegment revenues were not significant.

Millions of Dollars	External Revenue	Operating Income (Loss)	Earnings Available to Common Shareholder	Segment Assets
Twelve Months Ended September 30, 2009				
Electric Operations	$ 2,143	$ 491	n/a	$ 6,511
Gas Distribution	439	38	n/a	550
Adjustments/Eliminations	-	(2)	$ 276	1,860
Consolidated Total	$ 2,582	$ 527	$ 276	$ 8,921

SOUTH CAROLINA ELECTRIC & GAS COMPANY
OPERATING EXPERIENCE - TOTAL ELECTRIC
12 MONTHS ENDED SEPTEMBER 30, 2009

		($000's)		
Line No.	Description	Regulatory Per Books	Pro-Forma Adjustments	Total As Adjusted
	(Col. 1)	(Col. 2)	(Col. 3)	(Col. 4)
1	Operating Revenues	2,142,853	(21,376)	2,121,477
2	Operating Expenses			
3	O&M Expenses - Fuel	802,592	(8,476)	794,116
4	O&M Expenses - Other	467,769	53,553	521,322
5	Depreciation & Amorization Expenses	244,109	7,755	251,864
6	Taxes Other Than Income	138,977	5,340	144,317
7	Total Income Taxes	121,166	(34,488)	86,678
8	Total Operating Expenses	1,774,613	23,683	1,798,297
9	Operating Return	368,240	(45,059)	323,180
10	Customer Growth	1,230	(162)	1,068
11	Interest on Customer Deposits	(588)	-	(588)
12	Return	368,882	(45,221)	323,660
13	Rate Base			
14	Plant in Service	7,762,108	348,665	8,110,773
15	Reserve for Depreciation	2,929,422	430	2,929,852
16	Net Plant	4,832,686	348,235	5,180,921
17	Construction Work in Progress	849,470	(670,724)	178,746
18	Deferred Debits / Credits	(114,140)	-	(114,140)
19	Total Working Capital	59,956	1,501	61,457
20	Materials & Supplies	310,805	26,615	337,420
21	Accumulated Deferred Income Taxes	(688,893)	-	(688,893)
22	Total Rate Base	5,249,884	(294,372)	4,955,511
23	Rate of Return	7.03%		6.53%

SOUTH CAROLINA ELECTRIC & GAS COMPANY
OPERATING EXPERIENCE - RETAIL ELECTRIC
12 MONTHS ENDED SEPTEMBER 30, 2009

		($000's)		
Line No.	Description	Retail As Adjusted	Proposed Increase	Total After Proposed Increase
	(Col. 1)	(Col. 2)	(Col. 3)	(Col. 4)
1	Operating Revenues	2,054,048	197,575	2,251,623
2	Operating Expenses			
3	O&M Expenses - Fuel	764,342		764,342
4	O&M Expenses - Other	506,604		506,604
5	Depreciation & Amorization Expenses	244,824		244,824
6	Taxes Other Than Income	140,292	901	141,193
7	Total Income Taxes	84,998	75,228	160,226
8	Total Operating Expenses	1,741,060	76,129	1,817,189
9	Operating Return	312,988	121,446	434,434
10	Customer Growth	1,068	414	1,482
11	Interest on Customer Deposits	(588)	-	(588)
12	Return	313,468	121,860	435,328
13	Rate Base			
14	Plant in Service	7,899,820	-	7,899,820
15	Reserve for Depreciation	2,849,525	-	2,849,525
16	Net Plant	5,050,295	-	5,050,295
17	Construction Work in Progress	173,635	-	173,635
18	Deferred Debits / Credits	(111,832)	-	(111,832)
19	Total Working Capital	58,457	-	58,457
20	Materials & Supplies	322,956	-	322,956
21	Accumulated Deferred Income Taxes	(672,604)	-	(672,604)
22	Total Rate Base	4,820,908	-	4,820,908
23	Rate of Return	6.50%		9.03%

SOUTH CAROLINA ELECTRIC & GAS COMPANY
OPERATING EXPERIENCE - RETAIL ELECTRIC
12 MONTHS ENDED SEPTEMBER 30, 2009

Line No.	Description	Total Proposed Increase	Phase 1 Incremental Increase	Phase 2 Incremental Increase	Phase 3 Incremental Increase
	(Col. 1)	(Col. 2)	(Col. 3)	(Col. 4)	(Col. 5)
1	Operating Revenues	197,575	66,144	63,516	67,915
2	Operating Expenses				
3	O&M Expenses - Fuel				
4	O&M Expenses - Other				
5	Depreciation & Amorization Expenses				
6	Taxes Other Than Income	901	301	290	310
7	Total Income Taxes	75,228	25,185	24,184	25,859
8	Total Operating Expenses	76,129	25,486	24,474	26,169
9	Operating Return	121,446	40,658	39,042	41,746
10	Customer Growth	414	139	133	142
11	Interest on Customer Deposits	-	-	-	-
12	Return	121,860	40,797	39,175	41,888

SOUTH CAROLINA ELECTRIC & GAS COMPANY
ACCOUNTING & PR[illegible]RMA ADJUSTMENTS
TOT[illegible] [illegible]TRIC
OPERATI[illegible] [illegible]ERIENCE
TWELVE M[illegible]HS ENDED
September 30, 2008

ADJ. #	DESCRIPTION	REVENUES	O & M EXPENSES	DEPREC. & AMORT. EXPENSE	TAXES OTHER THAN INCOME	STATE INCOME TAX @ 5%	FEDERAL INCOME TAX @ 35%	PLANT IN SERVICE	ACCUM. DEPREC.	CWIP	INVENTORY	WORKING CASH
1	WAGES, BENEFITS AND PAYROLL TAXES		7,126		506	(382)	(2,538)					891
2	INCENTIVE PAY		(8,205)		(525)	437	2,902					(1,026)
3	INCREASE PENSION EXPENSE TO REMOVE PENSION INCOME		3,526			(176)	(1,172)					441
4	HEALTH CARE		1,011			(51)	(336)					126
5	ELIMINATE EMPLOYEE CLUBS INVESTMENT AND EXPENSES		(388)	(180)		28	189	(4,829)	(1,435)	-		(48)
6	PROPERTY RETIREMENTS							(4,348)	(4,348)			-
7	REMOVE AMOUNTS ASSOCIATED WITH NEW NUCLEAR GENERATION	(4,771)			(22)	(237)	(1,579)			(388,203)		-
8	CWIP					-	-	12,728		(5,871)		-
9	ADDITIONAL CWIP			643		(32)	(214)	17,083	643	(16,957)		-
10	ANNUALIZE DEPRECIATION BASED ON CURRENT RATES			2,020		(101)	(672)		2,020			-
11	ANNUALIZE THE EFFECT OF NEW DEPRECIATION STUDY			(13,440)		672	4,469		(13,440)			-
12	COPE SCR			2,922		(146)	(971)		2,922			-
13	PEAKING TURBINES			2,076		(104)	(690)	44,653	2,076			-
14	AMORTIZE PEAKING TURBINES DEFERRAL OVER 10 YEARS			208		(10)	(69)					
15	WATEREE ENVIRONMENTAL		3,149	11,992		(757)	(5,035)	283,378	11,992	(259,693)		394
16	AMORTIZE WATEREE DEFERRAL OVER 10 YEARS			1,514		(76)	(503)					
17	WILLIAMS ENVIRONMENTAL		28,993			(1,450)	(9,640)					
18	AMORTIZE WILLIAMS DEFERRAL OVER 10 YEARS		2,899			(145)	(964)					
19	ADJUST PROPERTY TAXES				5,457	(273)	(1,814)					-
20	ANNUALIZE INSURANCE EXPENSE		35			(2)	(11)					4
21	STORM INSURANCE PREMIUMS		3,210			(161)	(1,067)					401
22	VCS REFUELING OUTAGE		(92)			5	30					(12)
23	COGEN SOUTH ALLOCATION		(2,222)			111	739					(278)
24	TREE TRIMMING		6,613			(331)	(2,199)					827
25	MAJOR MAINTENANCE		10,790			(539)	(3,588)					1,239
26	WHOLESALE CUSTOMER ADJUSTMENT	(16,605)	(10,046)		(76)	(324)	(2,156)					(1,256)
27	ADJUST FUEL INVENTORY										26,615	
28	ECONOMIC IMPACT ZONE TAX CREDITS					(11,251)	3,938					-
29	AMORTIZE UPFLOW MODIFICATION OVER 10 YEARS		588			(29)	(196)					74
30	FULL AMORTIZATION OF GRIDSOUTH		(2,714)			136	902					(339)
31	AMORTIZE CAPACITY PURCHASES OVER 10 YEARS		296			(15)	(98)					
32	AMORTIZE RATE CASE EXPENSES OVER 5 YEARS		92			(5)	(30)					12
33	AMORTIZE PSI COSTS OVER 3 YEARS		316			(16)	(105)					39
34	AMORTIZE ECONOMIC DEVELOPMENT COSTS OVER 10 YEARS		100			(5)	(33)					13
35	TAX EFFECT OF ANNUALIZED INTEREST					425	2,827					-
		(21,376)	45,077	7,755	5,340	(14,804)	(19,684)	348,665	430	(670,724)	26,615	1,501

SOUTH CAROLINA ELECTRIC & GAS COMPANY
COMPUTATION OF PROPOSED INCREASE
RETAIL ELECTRIC OPERATIONS
12 MONTHS ENDED SEPTEMBER 30, 2009

Line No.	Description	Requested ($000's)
	(Col. 1)	(Col. 2)
1	Jurisdictional Rate Base	4,820,908
2	Required Rate of Return	9.03%
3	Required Return	435,328
4	Actual Return Earned	313,468
5	Required Increase to Return	121,860
6	Factor to Remove Customer Growth	1.003412
7	Additional Return Required from Revenue Increase	121,446
8	Composite Tax Factor	0.61468
9	Required Revenue Increase	197,575
10	Proposed Revenue Increase	197,575
	Additional Expenses	
11	Gross Receipts Tax @ .00456	901
12	State Income Tax @ 5%	9,834
13	Federal Income Tax @ 35%	65,394
14	Total Taxes	76,129
15	Additional Return	121,446
16	Additional Customer Growth	414
17	Total Additional Return	121,860
18	Earned Return	313,468
19	Total Return as Adjusted	435,328
20	Rate Base	4,820,908
21	Rate of Return	9.03%

SOUTH CAROLINA ELECTRIC & GAS COMPANY
STATEMENT OF FIXED ASSETS - ELECTRIC
AT SEPTEMBER 30, 2009

		($000's)			
Line No.	Description	Regulatory Per Books	Adjustments	As Adjusted	Allocated to Retail
	(Col. 1)	(Col. 2)	(Col. 3)	(Col. 4)	(Col. 5)
	Gross Plant in Service				
1	Intangible Plant	73,847	1,240	75,087	73,134
2	Production	4,047,050	334,455	4,381,505	4,214,708
3	Transmission	769,635	7,812	777,447	746,959
4	Distribution	2,427,127	9,354	2,436,481	2,436,216
5	General	186,973	490	187,463	182,587
6	Common (1)	257,476	(4,686)	252,790	246,215
7	Total Gross Plant in Service	7,762,108	348,665	8,110,773	7,899,820
	Construction Work in Progress				
8	Production	711,767	(651,807)	59,960	57,677
9	Transmission	54,333	(7,836)	46,497	44,675
10	Distribution	43,035	(9,293)	33,742	33,738
11	General	29,547	(1,730)	27,817	27,094
12	Common (1)	10,788	(58)	10,730	10,451
13	Total Construction Work in Progress	849,470	(670,724)	178,746	173,635

(1) Electric Portion

SOUTH CAROLINA ELECTRIC & GAS COMPANY
STATEMENT OF DEPRECIATION RESERVES - ELECTRIC
AT SEPTEMBER 30, 2009

		($000's)			
Line No.	Description	Regulatory Per Books	Adjustments	As Adjusted	Allocated to Retail
	(Col. 1)	(Col. 2)	(Col. 3)	(Col. 4)	(Col. 5)
1	Intangible Plant	-	-	-	
2	Production	1,710,511	6,176	1,716,687	1,651,336
3	Transmission	237,452	526	237,978	228,666
4	Distribution	764,704	(4,013)	760,691	760,606
5	General	113,007	1,055	114,062	111,095
6	Common (1)	103,748	(3,314)	100,434	97,822
7	Total	2,929,422	430	2,929,852	2,849,525

(1) Electric Portion

Note: Depreciation for electric production plant is calculated and applied by generating unit location and specific plant account. All other electric plant depreciation is calculated and applied by plant account.

SOUTH CAROLINA ELECTRIC & GAS COMPANY
MATERIALS AND SUPPLIES - ELECTRIC
AT SEPTEMBER 30, 2009

Line No.	Description	($000's) Regulatory Per Books	Adjustments	As Adjusted	Allocated to Retail
	(Col. 1)	(Col. 2)	(Col. 3)	(Col. 4)	(Col. 5)
	Fuel Stock				
1	Nuclear	84,721	-	84,721	80,508
2	Fossil	115,590	26,615	142,205	135,134
3	Total Fuel Stock	200,311	26,615	226,926	215,642
4	Emission Allowances	13,736	-	13,736	13,213
5	Other Electric Materials and Supplies	96,758	-	96,758	94,101
6	Total	310,805	26,615	337,420	322,956

DEFERRED DEBITS / CREDITS - ELECTRIC
AT SEPTEMBER 30, 2009

7	Post Employment Benefit	(81,893)	-	(81,893)	(79,627)
8	Deferred Environmental Costs	(232)	-	(232)	(226)
9	Storm Damage Reserve	(31,289)	-	(31,289)	(31,289)
10	Major Maintenance Accrual	(726)	-	(726)	(690)
11	Total	(114,140)	-	(114,140)	(111,832)

SOUTH CAROLINA ELECTRIC & GAS COMPANY
WORKING CAPITAL INVESTMENT - ELECTRIC
AT SEPTEMBER 30, 2009

		($000's)			
Line No.	Description	Regulatory Per Books	Adjustments	As Adjusted	Allocated to Retail
	(Col. 1)	(Col. 2)	(Col. 3)	(Col. 4)	(Col. 5)
1	Working Cash	127,134	1,501	128,635	124,734
2	Prepayments	47,475	-	47,475	47,155
3	Total Investor Advanced Funds	174,609	1,501	176,110	171,889
4	Less: Customer Deposits	(28,692)	-	(28,692)	(28,692)
5	Average Tax Accruals	(74,306)	-	(74,306)	(73,531)
6	Nuclear Refueling	(6,792)	-	(6,792)	(6,470)
7	Injuries and Damages	(4,863)	-	(4,863)	(4,739)
8	Total Working Capital	59,956	1,501	61,457	58,457

SOUTH CAROLINA ELECTRIC & GAS COMPANY
WEIGHTED COST OF CAPITAL
RETAIL ELECTRIC OPERATIONS
AT SEPTEMBER 30, 2009

Regulatory Capitalization for Electric Operations as of September 30, 2009

			As Adjusted		After Proposed Increase	
Description (Col. 1)	Pro Forma Amount (Col. 2) $	Pro Forma Ratio (Col. 3) %	Pro Forma Embedded Cost/Rate (Col. 4) %	Overall Cost/Rate (Col. 5) %	Pro Forma Embedded Cost/Rate (Col. 6) %	Overall Cost/Rate (Col. 7) %
Long Term Debt [(1)]	2,790,425,000	47.04%	6.14%	2.89%	6.14%	2.89%
Common Equity [(1)]	3,141,458,601	52.96%	**6.82%**	3.61%	**11.60%**	6.14%
Total	5,931,883,601	100.00%		6.50%		9.03%

(1) Includes additional $133.8 Million in Equity and $150 Million in Debt.
These are amounts occurring after the close of the test year.

Revenue Requirement Phase Breakdown
(Millions of Dollars)

	Item	Retail Amount	Revenue Requirement	% Increase
Phase 3	Wateree Environmental O&M	3.0	3.0	
	Wateree Environmental Depreciation	13.0	13.0	
	Wateree Environmental Plant	261.0	33.6	
	Tree Trimming	6.6	6.6	
	UpflowModification	0.6	0.6	
	Capacity Purchase	0.3	0.3	
	Peaking Turbines	41.0	5.3	
	Peaking Turbines Depreciation	2.2	2.2	
	Storm Insurance	3.1	3.1	
	Working Cash	1.7	0.2	
TOTAL Phase 3 - Rates Effective 7/2011			**67.9**	**3.27%**
Phase 2	Cope SCR	64.6	8.3	
	Cope SCR Depreciation	2.8	2.8	
	Williams Environmental	27.9	27.9	
	Williams Deferral	2.8	2.8	
	Saluda Dam Plant	76.4	9.8	
	Saluda Dam Depreciation	1.5	1.5	
	Major Maintenance Accrual	10.3	10.3	
	Working Cash	1.2	0.1	
TOTAL Phase 2 - Rates Effective 1/2011			**63.5**	**3.06%**
TOTAL Phase 1 - Rates Effective 7/2010			**66.1**	**3.19%**